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SUBJECT: TURKEY: PUSHING EU ON SOUTHERN GAS CORRIDOR

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Sensitive But Unclassified. Please handle accordingly.

1. (SBU) Summary: An Embassy-organized luncheon on September 22 brought together local EU diplomats and Turkish Foreign Ministry officials to highlight Turkey's key role in European and global energy security. MFA Energy DDG Mithat Rende called for greater engagement and visible support from the EU and its members to support the development of Azerbaijan and other Caspian natural gas sources to catalyze a "Southern Gas Corridor" to Europe as a way to gain alternatives to Russian supply and withstand "divide and conquer" pressure from Gazprom to lock up routes and buyers. End Summary.

2. (SBU) Rende expanded on Turkey's commitment to establishing gas transit to Europe. He cited the importance of the new Baku-Tbilisi-Erzurum gas pipeline (which he said will be complete in November), Azerbaijan's Shah Deniz phase II, a potential trans-Caspian pipeline from Kazakhstan and/or Turkmenistan, development of northern Iraq hydrocarbon resources, and gas from Egypt via Syria and Jordan. Rende said time was running out before Gazprom succeeded in locking-in long-term supply contracts with European end-users that would effectively lock-out these new transit opportunities. He lamented Gazprom's divide-and-conquer strategy, citing the recent gas storage deal with Hungary. Rende argued, however, that Turkmen President Niyazov, in signing a three-year - rather than a long-term supply contract with Russia, had clearly intended to create an opening for supplying other customers, including via a trans-Caspian pipeline.

3. (SBU) Rende said Gazprom was pressing on Turkey for a Blue Stream expansion to fill Turkey's pipelines to Europe and to supply new customers such as Israel. He noted that Iran needed to solve its problems with the west and establish itself as a reliable supplier before it could be a viable source, but he said Iran targets 35 BCM to Europe via Turkey. In response to questions about how Turkey would behave as a transit company, Rende argued that Turkey wanted a "fair share" of any transit arrangement crossing its territory, but that it had no intention of becoming a "new Gazprom." He pointed to Turkish participation in a joint gas marketing company as one way of ensuring Turkey's fair share.

4. (SBU) The local European embassy and Commission officers

pointed out that the recent "Green Paper" identified energy supply and route diversification as a key objective for the EU, but admitted that Europe lacked a common energy policy. The Polish and Finnish representatives saw their countries as beneficiaries of a southern corridor to the extent that it injected more market-based competition into Europe's dealings with Russia. They expressed a strong opinion that the Commission should be more vocal in support of a southern route.

15. (SBU) The Commission representative raised questions about Turkey's domestic demand and contractual position with respect to natural gas, the amount of gas available in Azerbaijan, and the status of a trans-Caspian pipeline (TCP). Rende noted that Turkey aimed to diversify its energy mix from the current 45% reliance on expensive imported natural gas for electricity generation by developing nuclear, coal, hydroelectricity, and renewable energy and that the gas available for transit well exceeded Turkey's projected domestic needs. He pointed out that Russia had shown flexibility on take-or-pay contracts so Turkey had been able to bring its natural gas contracts situation into equilibrium.

16. (SBU) Comment: Embassy Economic Officers echoed Rende's call for more visible support from the EU as customer for Caspian gas, noting that senior USG officials had visited southern corridor and European capitals and the U.S. was funding a pre-feasibility study for a TCP from Kazakhstan. The European diplomats seemed to get the points. Similar representations in capitals would reinforce their reporting.
Wilson